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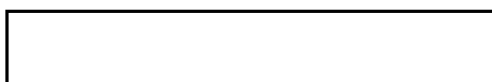


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ARGENTINA: The country is moving into an electoral campaign that could further fragment its fragile sense of community. It has already lost its best chance for political stability in years--a national unity slate backed by the military.

Beyond Peron's rejection of a national unity slate, the major source of disappointment and concern is Isabel Peron's nomination for the vice presidency. While there is hope that General Peron has a "master plan" and that a suitable succession eventually will be revealed, there are increasing rumors that Isabel and Lopez Rega, Peron's ambitious private secretary, are manipulating the aged leader. The Peronist youth and leftists in general are particularly critical of the former dictator's "reactionary" inner circle. The opposition will try to exploit this sensitive issue, which already is threatening the unity of the diverse Peronist movement.

The campaign for next month's elections is likely to end the tenuous spirit of conciliation that followed Peron's return. Radical Party leaders, angry at his apparent duplicity, are launching a tough, partisan race. While they have no chance of winning, the Radicals and the other major opponent, Francisco Manrique, may succeed in humiliating Peron by pulling his vote below the 49 percent received by his surrogate, Campora, in the March elections. Some army officers believe that Peron will be forced into a run-off.

Peron's initial favorable response to a joint ticket with his long-time Radical opponents won widespread acclaim and was hailed as the first step toward ending the long cycle of political and economic crises. After stringing the Radicals along for weeks, Peron abandoned the plan, perhaps in part because Radical leader Balbin wanted more out of the deal

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than Peron was willing to concede. Under the pressure of electoral deadlines, Isabel Peron was put on the ticket in what ostensibly was a temporary expedient. With the campaign now under way, however, hope is fading that she will be replaced. Many suspect that Peron is back to his old tricks and that the national unity theme was a smoke screen.

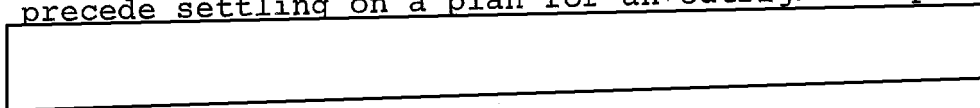
Nevertheless, Peron probably will receive a comfortable majority in the elections on 23 September. Most still entertain hopes that the "master manipulator" can still pull the country together. One military leader summed up the attitude of many toward Peron when he said "he is all we have so we must make the best of it." [REDACTED]

CHILE: Contending political forces are still digesting General Prats' resignation. Two other pro-government army generals also have resigned, and the situation remains tense.

There was more violence in Santiago's streets yesterday, when anti-government secondary-school students staged a protest march. President Allende and the Christian Democrats sharpened their verbal duel over a controversial congressional resolution on respect for legal processes. A cabinet shake-up may be in the offing for Monday, when a new defense minister is slated to be named. There are conflicting reports on the status of Admiral Montero, the navy commander and the last remaining service chief in the cabinet.



Now that some powerful constraining influences in the army have resigned, discontent undoubtedly will be manifested more openly. Increased contact between army dissidents and their like-minded navy and air force colleagues should help overcome inter-service suspicions, but the formulation of new joint political demands on the President seems likely to precede settling on a plan for an outright coup.



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WEST GERMANY: A record trade surplus for July boosts the cumulative surplus for this year to \$6.8 billion, an increase of almost 60 percent over the same period last year.

The \$1.3-billion surplus in July reflects continued strong export performance. Exports will probably continue to rise through the rest of this year because of the high level of orders booked by West German industry since last summer. The surplus was fueled by sluggish import growth, caused largely by importers not buying foreign goods in anticipation of this June's mark revaluation. Imports should pick up, however, in the next few months. The government's anti-inflation program is not likely to dampen demand for imported goods until some time next year. The trade surplus in 1973 will probably total nearly \$11 billion--an increase of more than 20 percent over last year's surplus.

Although the substantial appreciation of the mark against other currencies since the beginning of this year has not yet begun to affect the volume of West German trade, it is squeezing the profit margins of German exporters and will reduce their competitive position in world markets.

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CYPRUS: Unrest continues in the Greek Cypriot community, although violence declined somewhat this week. Meanwhile, the intercommunal talks with the minority Turkish Cypriots remain deadlocked.

General Grivas' organization, locked in a power struggle with President Makarios, now has extended its bombings of selected targets on the island to property belonging to Communists. This could trigger retaliation by the Communists or by other leftist supporters of President Makarios.

Grivas continues to hold the kidnaped justice minister, but a newspaper sympathetic to Grivas is playing up the decrease in activity by Grivas' supporters as a "truce" offer in order to allow Makarios time to accede to Grivas' demand to give up the presidency. Makarios, of course, has no intention of doing this and is determined to end the threat from Grivas by the end of this year; he continues to arrest Grivas' leading assistants and appears to have plans to arrest the General himself eventually.

Athens generally has been reluctant to enter the dispute openly. Yesterday, however, President Papadopoulos publicly urged the terrorist leader to end his campaign, perhaps believing, like Makarios, that Grivas is on the run. Grivas does appear to have lost some ground in his struggle, but his forces probably are only crippled, not crushed, and more violence is likely.

The persistent dissension among the Greek Cypriots overshadows the intercommunal discussions. Turkish and Greek experts have been participating in the discussions since earlier this year, and both sides describe their sessions so far as fruitless. The rival communities blame each other for the deadlock. The talks will proceed at least through September, but progress, particularly on the key question of autonomy for the Turkish Cypriot community, is doubtful.

Changes in the Dollar Value of Foreign Currencies
Since 19 March
(in percent)

| | 24 August | 17 August | 27 July | 11 July | 6 July |
|--------------|-----------|-----------|---------|---------|--------|
| Mark | +14.7 | +14.2 | +23.1 | +17.6 | +25.1 |
| French franc | + 5.0 | + 5.0 | +12.5 | +11.6 | +19.9 |
| Sterling | - 0.2 | 0.0 | + 1.9 | + 3.6 | + 3.9 |
| Yen | - 0.1 | - 0.1 | - 0.2 | + 0.2 | + 1.1 |

INTERNATIONAL MONETARY DEVELOPMENTS: The dollar lost only slight ground against European currencies yesterday despite the announcement of a record West German trade surplus and the release of US trade data showing a smaller surplus than dealers had anticipated. In previous months, unfavorable trade announcements have caused the dollar to plummet in value. Rising US interest rates and a general feeling that the dollar had been undervalued in the last selling spree have helped keep the dollar well above the lows reached in early July. The dollar showed little change from the end of last week despite considerable fluctuation. [REDACTED]

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YUGOSLAVIA: Conservatives and moderates in Belgrade appear headed for a collision when the city party meets early next month. Demands for a thorough purge of liberals could strain the cohesion of the parent Serb party leadership.

The meeting in the most important local apparatus in the republic was called to evaluate implementation of Tito's standing order that the party root out all forms of liberalism. The proceedings will implicitly reflect on Serb party boss Vlaskalic, who was selected by Tito last fall when more prominent Serbs declined the leadership post.

A moderate, Vlaskalic has steadfastly opposed witch-hunts throughout the republic, but conservative critics within the military and veterans groups in Serbia's northern province of Vojvodina are pushing for a more widespread purge. The national party weekly, Kommunist, indicated on 20 August that vacillations in Belgrade harm the entire Serb party.

Local party leaders will have to take corrective measures ranging from self-criticism to a purge of errant party officials. Extreme conservatives, however, will press for more sweeping dismissals in order to discredit the moderates.

If the city leadership falters in handling the meeting, the federal party may have to intervene. The Vojvodina party organization is already in political turmoil that has strong overtones of Serb nationalism. Kosovo, Serbia's other province, is a potential powder keg of Albanian-Serb animosities, and its Albanian leaders, who are also hold-overs from the liberal era, are also vulnerable to conservative purge demands. [REDACTED]

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